Report

of the

Examination of

Mortgage Guaranty Insurance Corporation

Milwaukee, Wisconsin

As of December 31, 2002

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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August 22, 2003

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Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance (the "Commissioner"), a compliance examination has been made of the affairs and financial condition of:

MORTGAGE GUARANTY INSURANCE CORPORATION
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Mortgage Guaranty Insurance Company ("MGIC," or the "company") was conducted in 1998 and 1999 as of December 31, 1997. The current examination covered the intervening period ending December 31, 2002, and included a review of such 2003 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The company was organized February 20, 1979 under the name Liberty Mortgage Insurance Corporation ("LMIC"). LMIC was established as a subsidiary of the Verex Corporation, and was purchased by MGIC Investment Corporation ("MGIC Investment") in November of 1984. The name of the company was changed to Mortgage Guaranty Insurance Corporation on March 1, 1985, when the company began writing new business.

MGIC is a member of a holding company system, and ultimate ownership and control of the company is held by MGIC Investment. MGIC is the lead operating company in the MGIC group, and performs all of the business operations of its affiliated insurers pursuant to an intercompany services agreement. Further discussion of the MGIC Investment Corporation holding company, description of MGIC's significant affiliates, and description of the company's intercompany agreements are included in the section of this report captioned "Affiliated Companies." This section of the examination report provides description of three significant changes in the company's holding company that occurred during the period under examination, followed by a description of the company's business operations.

Dissolution of Mortgage Guaranty Reinsurance Corporation

In 1985, MGIC issued two classes of common capital stock, Class A common stock and Class B common stock. Each class of MGIC stock was initially wholly owned by MGIC Investment Corporation. Effective September 30, 1985, MGIC Investment contributed 100% of the MGIC Class A common stock to the MGIC Investment subsidiary, Mortgage Guaranty Reinsurance Corporation ("MGRC"). MGIC Investment retained ownership of the MGIC Class B common stock. Effective May 25, 1999, MGRC was dissolved pursuant to a plan of voluntary dissolution approved by the Commissioner. Upon the dissolution of MGRC, all 35,000 issued and outstanding shares of MGIC Class B common stock held by MGIC Investment Corporation were redeemed at a price of $1,000 per share, and the remaining assets and liabilities of MGRC, including 100% of the MGIC Class A common capital stock, transferred to MGIC Investment Corporation. MGIC's capital stock presently is comprised solely of one class of issued and outstanding common stock, wholly owned by MGIC Investment.

Merger of MGIC Surety Corporation

MGIC acquired Financial Security Assurance, Inc. of Oklahoma (“FSAOK”), originally known as Insurers Indemnity and Insurance Company (“Insurers Indemnity”) in 1995. Effective November 18, 1996, FSAOK redomesticated to Wisconsin and adopted the name MGIC Assurance Corporation (“MAC”). In 1997, all of the issued and outstanding capital stock of MAC was contributed to the MGIC subsidiary insurer, MGIC Surety Corporation (“Surety”). Surety was merged with and into MGIC effective November 30, 2002. Upon the merger of Surety, the assets and liabilities of MGIC Surety Corporation, including 100% of the issued and outstanding capital stock of MAC, transferred to MGIC.

Acquisition of MGIC Indemnity Corporation

MGIC purchased MGIC Indemnity Corporation (“MIC”), formerly known as Wisconsin Mortgage Assurance Corporation (“WMAC”) effective December 31, 1998. MGIC Indemnity Corporation was initially incorporated November 14, 1956 under the name Mortgage Guaranty Insurance Corporation (“Old MGIC”, the pre February 28, 1985 MGIC legal entity), and commenced operations in March 1957 as a mortgage guaranty insurer. Ownership and control of the Old MGIC holding company and its subsidiaries, including Old MGIC, was acquired by Baldwin-United Corporation (“Baldwin”) effective March 9, 1982. The Baldwin enterprise became financially impaired in 1983 due to the holding company’s excess debt obligations, and Baldwin filed petition for voluntary reorganization under Chapter 11 of the Federal Bankruptcy Code in September 1983.

A 1984 financial examination of the Old MGIC insurers determined that the companies were financially sound but that their ability to compete in their markets had been severely damaged by their affiliation with the financially impaired Baldwin holding company. An Agreement and Plan of Acquisition and Assumption (the “Plan”) was approved by the Commissioner in November 1984, whereby the present-day Mortgage Guaranty Insurance Corporation acquired from the Old MGIC holding company the right to carry on Old MGIC’s insurance business, the rights to the name “Mortgage Guaranty Insurance Corporation,” and the employees and operating assets of Old MGIC. As a part of the approved agreement, Old MGIC’s remaining in-force renewal policies (the “Old Book” business) entered into run-off and Old MGIC’s net retained liabilities for existing insurance risks were 100% reinsured under quota share reinsurance treaties with a group of international reinsurers.

The 1984 Plan was closed effective February 28, 1985, and Old MGIC’s name was changed to Wisconsin Mortgage Assurance Corporation (“WMAC”). WMAC was placed into liquidation upon the Plan closing date, and effective March 1, 1985, the business operations of Old MGIC were transferred to the present-day MGIC. The WMAC liquidation proceedings included the following provisions:

1. WMAC no longer wrote new business, but its Old Book insurance in-force, insurance policies noncancelable by the company and renewable by its insureds, continued in force, with the company’s net retained liabilities 100% ceded through quota share reinsurance treaties;

2. WMAC’s contingency reserve requirement was waived by the Commissioner as a result of the 100% quota share reinsurance becoming effective. Substantially all of WMAC’s remaining assets, after payments related to the quota share reinsurance treaties, were distributed to its parent, Baldwin, for distribution to Baldwin’s creditors;

3. The quota share reinsurance became the primary source of payments for claims incurred on WMAC’s in-force business, and;

4. The new writer of insurance, MGIC, became the manager of WMAC’s reinsured business, responsible to WMAC and its reinsurers for administration of WMAC’s insurance in-force.

WMAC was financially solvent at the commencement of liquidation proceedings, and has never been financially impaired. The liquidation proceeding became the method by which the interests of Old MGIC policyholders as of February 28, 1985, could be protected from the bankruptcy of Baldwin through an orderly run-off of WMAC’s Old Book, and was the method whereby the successful ongoing business of Old MGIC could be disassociated from the Baldwin bankruptcy and continue in the successor MGIC legal entity. Since 1985, WMAC Old Book claims have been paid in full by WMAC or its reinsurers, and the Old Book insurance in-force has gradually diminished by orderly run-off.

In December 1998, Mortgage Guaranty Insurance Company acquired ownership of WMAC through the purchase of WMAC's common capital stock. A rehabilitation plan providing for the acquisition of WMAC by MGIC was approved by the liquidation court and the Commissioner, and effective December 22, 1998, WMAC’s liquidation proceedings were terminated and the company became subject to rehabilitation proceedings supervised by the Commissioner. On December 31, 1998, pursuant to the plan of rehabilitation, MGIC acquired 100% of WMAC's common capital stock for the purchase price of $2 million; WMAC became a wholly owned subsidiary of MGIC, and the WMAC rehabilitation proceedings were terminated. Immediately upon the close of MGIC's purchase transaction, MGIC contributed capital of $13 million to WMAC to provide the company with capital in excess of Wisconsin minimum capitalization requirements for the company. The name of the company was changed to MGIC Indemnity Corporation effective June 1, 2000. The company has not written any new insurance business since 1985, and its entire business portfolio is in run-off. The remaining run-off risks in the company are not material.

MGIC Business Operations

The company is a major provider of private mortgage guaranty insurance in the United States, with approximately 25% market share of the national private mortgage insurance market at year-end 2002. Private mortgage insurance coverages are issued to mortgage lenders, including mortgage bankers, savings institutions, commercial banks, mortgage brokers, credit unions, and other lenders. Mortgage guaranty insurance is generally required by a lender to insure the lender's risk in originating a low-down-payment mortgage loan to a home buyer, and a lender typically requires mortgage insurance when the mortgage loan exceeds 80% of the value of the mortgaged real estate. In the event of borrower default, private mortgage insurance covers the risk exposure of the insured lender. Private mortgage insurance also facilitates the sale of low-equity mortgage loans in the secondary mortgage securities market, primarily to the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Federal National Mortgage Association ("Fannie Mae").

The company writes residential mortgage guaranty insurance in all fifty states, the District of Columbia, Puerto Rico, and Bermuda. The company's 2002 direct premiums in the seven highest-premiums states are listed in the following schedule:

Mortgage Guaranty Insurance Company
2002 Direct Premium Written

State	Premiums	Percentage
California	$ 172,023,798	13.5%
Florida	83,451,873	6.5%
Texas	74,755,751	5.8%
Michigan	64,974,498	5.1%
Illinois	62,599,243	4.9%
Ohio	57,201,317	4.5%
New York	52,132,993	4.1%
All other states	708,637,590	55.6%
Total	$1,275,777,063	100.0%

The company offers two principal types of mortgage guaranty insurance, primary insurance and pool insurance. Primary mortgage guaranty insurance provides mortgage loan default protection on individual loans. The insurance covers unpaid loan principal, delinquent interest, and certain expenses associated with loan default and subsequent foreclosure in the event that the mortgage borrower defaults on a loan. The company generally pays the coverage percentage specified in the lender's primary policy, but the company has the option to pay 100% of the loss of the insured (the entire outstanding balance of the loan principal, unpaid interest, and other costs) and to acquire title of the defaulted mortgage real estate.

Primary residential insurance generally applies to owner-occupied first mortgages on one-to-four family homes, including condominiums. Primary coverages are underwritten by the company on a loan-by-loan basis and can be issued on any type of residential mortgage loan instrument issued by the lender and approved for coverage by the company. A mortgage insurer may terminate mortgage insurance coverages only in the event of non-payment of premium, and policies remain renewable for successive policy periods at the option of the insured lender.

MGIC offers primary insurance coverages that typically range from 12% to 35% of the original loan. In 2002, 53% of MGIC's new business coverage was issued on mortgages with an original loan-to-value ratio of 90.01% to 95%. The insured coverage percentage is determined by the lender, and often is established to comply with requirements established by Freddie Mac and Fannie Mae, regarding the portion of mortgage loan exposure that must be insured on securitized mortgages.

The company issues a mortgage guaranty master policy to each lender who meets company criteria as an acceptable mortgage loan producer. In general, the company underwrites each individual primary loan submitted by an insured lender, and issues a separate certificate of insurance for each loan that meets company underwriting standards. The certificate of insurance for a primary loan attaches to the lender's master policy as an individual risk insured by the company. During 2002, the company issued coverages on mortgage loans for approximately 4,800 of the 12,900 master policyholders.

Some primary insurance (generally referred to as "Bulk" primary insurance) provides coverage on each mortgage loan included in a defined portfolio of loans insured under a single bulk transaction. Bulk insurance typically insures the closed loans in an insured portfolio to specified levels of coverage. Bulk insurance coverages are provided to financial institutions in connection with securitizing the portfolio of loans for purposes of issuing an asset-backed investment security. By obtaining qualifying bulk mortgage guaranty insurance, the asset-backed security can qualify for an investment grade rating from independent credit rating agencies, which provides support for the perceived credit worthiness, marketability, and pricing of the bulk insured asset-backed security in the credit markets.

Pool mortgage guaranty insurance provides coverage on a pool of mortgage loans. Pool insurance is generally used as a credit enhancement supplementing individual loan primary insurance, for mortgage loan secondary market transactions involving the aggregation of mortgage loans into a pool for which a collateralized mortgage bond is underwritten, issued, and traded. Pool insurance typically covers loss on a defaulted individual mortgage loan included in the pool that is in excess of the loan's primary insurance coverage, as well as covering the total loss on a defaulted loan that did not require primary insurance at issuance.

The company's risk in a pool policy is generally limited to an aggregate loss percentage, typically one to five percent of the aggregate original principal balance of the loans in the pool. The company's participation in pool insurance has largely been limited to pools of fixed rate 30-year loans sold to Freddie Mac and Fannie Mae ("agency pool insurance"), and to pools associated with loans insured under state housing finance programs. In recent years, banks have begun to originate pools of mortgage loans that they have underwritten for sale to Freddie Mac and Fannie Mae. A mortgage guaranty insurer insures a lender-originated pool under an agency pool insurance policy. The industry experienced substantial growth in pool insurance contracts during the period under examination, and MGIC's new pool risk written equaled $674 million in 2002, and $412 million in 2001.

MGIC's marketing operations are structured into 7 field regions located throughout the United States. The marketing department has responsibility for maintaining and creating new products and services for business entities that use mortgage insurance. Each field region is supervised by a managing director who is responsible for the operations of the field offices and sales team within the field region. The field offices perform underwriting of individual loans and maintain company relationships with clients. Loan files are submitted to a field office which evaluates the loan and issues an insurance underwriting decision. The company's sales team is comprised of 87 account managers who evaluate customer needs and offer MGIC products to customers. Six national account managers maintain MGIC's relationship with MGIC's national accounts, defined as lenders who have multi-regional locations and a substantial mortgage insurance volume. The national account managers coordinate the efforts of the field regions with regard to the national accounts.

The following table is a summary of the net insurance premiums written by the company in 2002. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Mortgage guaranty	$1,275,777,063	$1,015,073	$238,287,246	$1,038,504,890
Total All Lines	$1,275,777,063	$1,015,073	$238,287,246	$1,038,504,890

III. MANAGEMENT AND CONTROL

Board of Directors

The Mortgage Guaranty Insurance Corporation board of directors currently consists of twelve members. MGIC directors are elected to serve a one-year term. MGIC directors are elected by the company's sole shareholder, MGIC Investment Corporation, and the individuals who comprise the MGIC board also comprise the membership of the MGIC Investment Corporation board of directors. The boards of directors of MGIC and MGIC Investment Corporation conduct joint meetings at which the boards perform executive management and control and corporate governance on behalf of the two respective companies.

Directors who are employees within the MGIC enterprise receive no additional compensation for their service on the board of directors. MGIC directors who are not employed by the MGIC companies currently receive as compensation an annual fee of $32,000, plus $3,000 for each board meeting attended and $2,000 for all committee meetings attended on any one day. Directors who serve as chairman of a committee of the board receive an additional annual fee of $4,000.

Currently the MGIC board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Curt S. Culver Nashotah, WI	President and Chief Executive Officer MGIC Investment Corporation	2004
James A. Abbott Charlotte, NC	Chairman and Principal American Security Mortgage Corporation	2004
Mary K. Bush Chevy Chase, MD	President, Bush & Company.	2004
Karl E. Case Wellesley, MA	Professor of Economics Wellesley College	2004
David S. Engleman Rancho Santa Fe, CA	Private Investor	2004
Thomas M. Hagerty Boston, MA	Managing Director Thomas H. Lee Company	2004
Kenneth M. Jastrow II Marble Falls, TX	Chairman and Chief Executive Officer Temple Inland, Inc.	2004
Daniel P. Kearney Marblehead, MA	Business Consultant and Private Investor	2004
Michael E. Lehman Saratoga, CA	Director of Various Corporations	2004
Sheldon B. Lubar Milwaukee, WI	Chairman Lubar & Co., Inc.	2004
William A. McIntosh Kenilworth, IL	Adjunct Professor of Finance Howard University	2004
Leslie M. Muma River Hills, WI	Chief Executive Officer Fiserv, Inc.	2004

Officers of the Company

MGIC officers are appointed by the company's board of directors at the annual meeting of the board, and serve a one-year term of office. Senior officers serving at the time of this examination are listed below. Some of the senior officers of MGIC hold a corresponding office in MGIC Investment Corporation. The officers' compensation amounts indicated below reflect the amounts reported in the company's 2002 Report of Executive Compensation as filed with the Office of the Commissioner of Insurance.

Name	Office	Compensation
Curt S. Culver	President and Chief Executive Officer	$3,751,135
John D. Fisk	Executive Vice President – Strategic Planning	254,488
J. Michael Lauer	Executive Vice President and Chief Financial Officer	2,936,899
James S. MacLeod	Executive Vice President – Field Operations	1,233,671
Lawrence J. Pierzchalski	Executive Vice President – Risk Management	1,956,413
Joseph J. Komanecki	Senior Vice President, Controller and Chief Accounting Officer	280,934
Jeffrey H. Lane	Senior Vice President, General Counsel and Secretary	663,680
Michael G. Meade	Senior Vice President and Chief Information Officer	432,761
Patrick Sinks	Senior Vice President – Field Operations	818,370
Steven T. Snodgrass	Senior Vice President – Capital Markets	879,564
Joseph J. Ziino, Jr.	Senior Vice President – Regulatory Relations Associate General Counsel and Assistant Secretary	765,206
James A. Karpowicz	Vice President and Treasurer	684,920

Committees of the Board

The MGIC bylaws allow for the formation of certain committees by the board of directors. The MGIC committees of the board at the time of the examination are listed below:

Executive Committee
Curt S. Culver (Chair)
James A. Abbott
Sheldon B. Lubar

Audit Committee
Mary K. Bush (Chair)
Daniel P. Kearney
Michael E. Lehman

Securities Investment Committee
Daniel P. Kearney (Chair)
David S. Engleman
Thomas M. Hagerty
William A. McIntosh

Risk Management Committee
Karl E. Case (Chair)
James A. Abbott
David S. Engleman

Management Development Committee
Sheldon B. Lubar (Chair)
Kenneth M. Jastrow
Leslie M. Muma

IV. AFFILIATED COMPANIES

Mortgage Guaranty Insurance Corporation is a member of a holding company system. The ultimate parent of the holding company system is MGIC Investment Corporation.

The following organizational chart depicts the relationships among the affiliates in the holding company group. Each respective subsidiary is a wholly owned affiliate within the MGIC enterprise except as noted otherwise. A brief description of the significant affiliates of Mortgage Guaranty Insurance Corporation and a summary of significant affiliated agreements follows the organizational chart.

Organizational Chart
As of December 31, 2002

- MGIC Investment Corporation
  - Mortgage Guaranty Insurance Corporation
    - MGIC Reinsurance Corporation of Wisconsin
      - MGIC Mortgage Insurance Corporation
        - MGIC Mortgage and Consumer Asset II LLC (Note #1)
    - MGIC Credit Assurance Corporation
    - MGIC Assurance Corporation
      - MGIC Assurance Corporation Segregated Account
    - MGIC Reinsurance Corporation of Vermont
    - GHR Systems, Inc. (12% ownership interest)
    - MGIC Indemnity Corporation
    - eMagic.com
    - Sherman Financial Group LLC (45.5% ownership interest)
    - Equix Financial Services LLC (70.5% ownership interest)
    - MGIC Mortgage and Consumer Asset I LLC (Note #1)
      - CMI Investors LP 5 (99% ownership interest)
      - CMI Investors LP 8 (99% ownership interest)
      - CMI Investors LP 9 (99% ownership interest)
      - CMI Investors LP 2 (99% ownership interest)
        - Credit-Based Asset Servicing & Securitization LLC (45.9% ownership interest)
          - Litton Loan Servicing LP
  - MGIC Reinsurance Corporation
  - MGIC Mortgage Reinsurance Corporation
  - MGIC Residential Reinsurance Corporation
  - MGIC Mortgage Marketing Corporation
  - MGIC Investor Services Corporation
  - MGIC Insurance Services Corporation
  - MGIC Mortgage Securities Corporation
  - MGIC OneStop Holdings LLC
    - OneStop Shop, Inc. (24% ownership interest)

Note # 1: MGIC Mortgage and Consumer Asset II LLC holds a 1% ownership interest in CMI Investors LP's; the remaining 99% interest is held in MGIC Mortgage and Consumer Asset I LLC.

MGIC Investment Corporation ("MGIC Investment")

MGIC Investment was incorporated in Wisconsin on June 22, 1984 under the name Management Financing Corporation. MGIC Investment was established as a holding company to consolidate the ownership and capitalization of the legal entities within the MGIC enterprise. The initial capital funding of Management Financing Corporation was provided by The Northwestern Mutual Life Insurance Company and by senior executive officers of MGIC. The holding company name was changed to MGIC Investment Corporation effective March 1, 1985. An initial public offering of MGIC Investment common capital stock was completed in August of 1991, and a second public offering was completed in June 1992. The issued and outstanding shares of MGIC Investment common capital stock are traded on the New York Stock Exchange.

As of February 15, 2003, Legg Mason, Inc., an investment management company, held a 14.59% ownership interest in the outstanding MGIC Investment Corporation capital stock, and Janus Capital Management LLC held a 12.16% ownership interest in MGIC Investment. Officers and directors of MGIC Investment Corporation, who comprise 17 individual share holders, in aggregate, held 1.26% ownership interest in MGIC Investment. Interests held by officers and directors included 31,085 share units held under MGIC Investment Corporation's directors' deferred compensation plan for which the holders currently do not have rights to exercise investment or voting power. Other investors, each of whom individually owned less than a 5% interest in MGIC Investment, held the remaining outstanding shares of MGIC Investment common capital stock.

The MGIC enterprise is principally engaged in writing mortgage guaranty insurance on residential mortgage loans. MGIC Investment Corporation insurance subsidiaries provide mortgage guaranty insurance to mortgage lenders, and its non-insurance operating subsidiaries provide products and services to the mortgage finance industry, including contract underwriting, mortgage portfolio analysis, secondary market mortgage brokerage and trading services, and internet-based technology services.

As of December 31, 2002, MGIC Investment's consolidated GAAP basis audited financial statements reported total assets of $5,300,303,000, total liabilities of $1,905,111,000, and total shareholders' equity of $3,395,192,000. Operations for 2002 provided reported net income of $629,191,000.

MGIC Reinsurance Corporation of Wisconsin ("MRCW")

MRCW was incorporated under the laws of Wisconsin on February 15, 1996, and commenced operations on April 1, 1996. MRCW was established to provide reinsurance to MGIC for primary and pool mortgage guaranty policy liabilities in excess of 25% of the total indebtedness to the insured, for mortgage guaranty policies written in all jurisdictions except six states. MRCW assumes all of its business from MGIC, and does not cede any business.

As of December 31, 2002, MRCW's statutory financial statements reported total admitted assets of $648,397,711, total liabilities of $200,721,132, and policyholder's surplus of $447,676,579. Operations for 2002 provided reported net income of $27,646,621.

MGIC Mortgage Insurance Corporation ("MMIC")

MMIC was incorporated under the laws of Wisconsin on April 30, 1987. MMIC was established to be an insurer that maintains a Standard and Poor's Corporation AAA claims paying ability rating, to provide the MGIC group with the facility to write mortgage guaranty insurance on loans that require the insurer to be rated AAA. MMIC assumes coverages issued by MGIC, and does not write any direct insurance business. MMIC has not assumed any new risks from MGIC for the past several years.

Prior to 1996, MMIC was a wholly owned subsidiary of MGIC. In 1996 MGIC contributed 100% of the common capital stock of MMIC to MGIC Reinsurance Corporation of Wisconsin.

As of December 31, 2002, MMIC's statutory financial statements reported total admitted assets of $79,579,265, total liabilities of $11,512,325, and policyholder's surplus of $68,066,940. Operations for 2002 provided reported net income of $4,535,872.

MGIC Credit Assurance Corporation ("MCAC")

MCAC was organized under the laws of Wisconsin on April 30, 1997, and commenced business on May 21, 1997. MCAC is a wholly owned subsidiary of MGIC, and was established to write mortgage guaranty insurance for lenders in certain states on second mortgages and home equity lines of credit. MCAC commenced writing direct business in 1998, and terminated writing new business effective January 1, 2002. MCAC's current portfolio of insurance risks consists solely of renewal business on existing policies, and MCAC's entire book of business is in run-off.

As of December 31, 2002, MCAC's statutory financial statements reported total admitted assets of $36,120,251, total liabilities of $14,915,547, and policyholder's surplus of $21,204,704. Operations for 2002 resulted in a reported net loss of $5,573,957.

MGIC Assurance Corporation ("MAC")

MAC was organized under the laws of Oklahoma in 1937 under the name Insurers Indemnity and Insurance Company, and was subsequently renamed Financial Security Assurance, Inc. of Oklahoma ("FSAOK"). FSAOK was acquired by MGIC in 1995, and effective November 18, 1996, redomesticated to Wisconsin and adopted the name MGIC Assurance Corporation.

MAC established a segregated account in 1997 pursuant to the requirements of s .611.24 (1), Wis. Statutes and s. Ins 3.09 (12)(g), Wis. Adm. Code, through which MAC is authorized to conduct junior lien guaranty insurance business. MAC commenced writing insurance on second mortgages and home equity lines of credit in 1997. MAC terminated writing new business effective January 1, 2002. MAC's current portfolio of insurance risks consists solely of renewal business on existing policies written through the segregated account, and MAC's entire book of business is in run-off.

In 1997, all of the issued and outstanding capital stock of MAC was contributed to the MGIC subsidiary insurer, MGIC Surety Corporation ("Surety"). MGIC Surety Corporation was merged with and into MGIC effective November 30, 2002. Upon the merger of Surety, the assets and liabilities of MGIC Surety Corporation, including 100% of the issued and outstanding capital stock of MAC, transferred to MGIC.

As of December 31, 2002, MAC's statutory financial statements reported total admitted assets of $35,284,592, total liabilities of $12,516,380, and policyholder's surplus of $22,768,212. Operations for 2002 produced net income of $232,734.

MGIC Reinsurance Corporation of Vermont ("MRCV")

MRCV was established in December 1999 as a Vermont-domiciled insurer, to operate as a sponsored captive insurance company pursuant to Title 8, Chapter 141 of the State of Vermont Statutes. The Vermont Statutes permit a licensed insurer and participating sponsors to establish a sponsored captive reinsurance company to reinsure business written by the licensed insurer. MRCV reinsures MGIC mortgage guaranty risks on loans that were originated, purchased, or serviced by mortgage lenders which participate in MRCV captive reinsurance. For the business assumed by MRCV on behalf of a participating sponsor, MRCV establishes a protected cell account in which assets of each such participant are separately maintained and accounted for with respect to the participant's liabilities for mortgage guaranty risks assumed by the participant. A separate participation agreement is established between MRCV and each respective participant. By establishing a participation agreement with MRCV, a lender which desires to engage in captive reinsurance is able to participate as a sponsored captive and is not required to establish a separate insurance or reinsurance legal entity. As of year-end 2002, MRCV had nine participation agreements in effect.

As of December 31, 2002, MRCV's statutory financial statements reported total admitted assets of $3,971,536, including $1.3 million of trust assets, total liabilities of $1,073,387, and policyholder's surplus of $2,898,149. Operations for 2002 produced net income of $776,615.

MGIC Indemnity Corporation ("MIC")

MGIC Indemnity Corporation is a Wisconsin-domiciled mortgage guaranty insurer originally incorporated in Wisconsin in 1956 under the name Mortgage Guaranty Insurance Corporation ("Old MGIC"). Old MGIC was a subsidiary of the former MGIC Investment Corporation ("Old MGIC Investment," the pre-1985 MGIC Investment Corporation). Ownership of Old MGIC Investment and its subsidiaries including Old MGIC was purchased by Baldwin-United Corporation ("Baldwin") in 1982. Baldwin became financially impaired in 1983 due in part to excess corporate debt, and filed petition for voluntary reorganization under Chapter 11 of the Federal Bankruptcy Code.

In 1984 the Commissioner approved a plan (the "Plan") whereby the ongoing successful business enterprise of Old MGIC could be protected from the bankruptcy of Baldwin and be continued in a successor legal entity. Pursuant to the Plan, effective February 28, 1985 the business operations of Old MGIC were transferred to a successor insurer named Mortgage Guaranty Insurance Corporation (the present-day MGIC), Old MGIC changed its name to Wisconsin Mortgage Assurance Corporation ("WMAC"), and WMAC entered into court-ordered liquidation proceedings under the supervision of the Commissioner.

Under the 1985 liquidation proceedings, WMAC discontinued issuance of new insurance business, its existing book of business entered run-off status managed by the present day MGIC, and 100% of WMAC's existing net retained liability for insurance risks was ceded to a group of international reinsurers under quota share reinsurance treaties. In December 1998, the WMAC liquidation proceedings were terminated and WMAC entered rehabilitation proceedings. Mortgage Guaranty Insurance Corporation (the present-day MGIC) purchased WMAC as of December 31, 1998 under a plan of rehabilitation approved by the Commissioner. WMAC changed its name to MGIC Indemnity Corporation effective June 1, 2000. MIC has not written any new business since 1985, and its entire portfolio of business is comprised of renewal policies in run-off. All claims have been paid by WMAC or its reinsurers, and only a small amount of insurance inforce remains in run-off.

As of December 31, 2002, MIC's statutory financial statements reported total admitted assets of $20,154,586, total liabilities of $273,834, and policyholder's surplus of $19,880,752. Operations for 2002 provided reported net income of $646,092.

eMagic.com, LLC ("eMagic")

eMagic.com, LLC was organized in February 2000 to provide business-to-business interactive electronic services to the mortgage finance industry. eMagic products and services provide an internet technological facility to lenders, mortgage service providers, and other mortgage institutions, to access wholesaler/investor products and vendor services that pertain to the origination of mortgage loans.

As of December 31, 2002, eMagic.com, LLC's GAAP basis financial statements reported total admitted assets of $1,753,000, total liabilities of $1,148,000, and members' equity of $604,000. Operations for 2002 resulted in a reported net loss of $10,577,000.

Credit-Based Asset Servicing & Securitization LLC ("C-BASS")

C-BASS is a joint venture in which MGIC had a 45.9% ownership interest as of year-end 2002. The venture was formed in July 1996 to engage in the acquisition and resolution of delinquent or otherwise credit sensitive single family mortgage loans. C-BASS purchases, sells, and securitizes residential mortgage loans, seller-financed notes, mortgage-backed securities, and other asset-backed debt securities.

As of December 31, 2002, C-BASS's GAAP basis audited financial statements reported total assets of $1,754,392,000, total liabilities of $1,384,855,000, and owners' equity of $369,537,000. Operations for 2002 provided reported net income of $138,335,000.

MGIC Reinsurance Corporation ("MGIC Re")

MGIC Re was incorporated under the laws of Wisconsin on February 21, 1985, and commenced business on March 1, 1985. MGIC Re was organized to provide MGIC with excess of loss reinsurance coverage. MGIC Re provides reinsurance to MGIC on primary and pool mortgage guaranty coverage in excess of 25% of the total indebtedness to the insured, on business written in six states. MGIC Re assumes all of its business from MGIC.

As of December 31, 2002, MGIC Re's statutory financial statements reported total admitted assets of $167,387,887, total liabilities of $108,714,843, and policyholder's surplus of $58,673,044. Operations for 2002 provided reported net income of $5,983,955.

MGIC Mortgage Reinsurance Corporation ("MMRC")

MMRC was organized under the laws of Wisconsin on July 1, 1996, and commenced business activity on that date. MMRC was organized to provide MGIC with excess of loss reinsurance coverage. MMRC provides reinsurance to MGIC on mortgage guaranty primary and pool coverage in excess of 25% of the total indebtedness to the insured on business written in six states. MMRC's reinsurance on any loan is limited to a maximum of 25% of the total indebtedness to the insured. MMRC assumes all of its business from MGIC, and does not cede any business.

As of December 31, 2002, MMRC's statutory financial statements reported total admitted assets of $16,101,360, total liabilities of $2,088,409, and policyholder's surplus of $14,012,951. Operations for 2002 provided reported net income of $1,159,246.

MGIC Residential Reinsurance Corporation ("MRRC")

MRRC was organized under the laws of Wisconsin on July 1, 1996, and commenced business on that date. MRRC was organized to provide MGIC with excess of loss reinsurance coverage. MGIC Residential Reinsurance Corporation provides reinsurance to MGIC on mortgage guaranty primary and pool coverage in excess of 25% of the total indebtedness to the insured on business written in six states. MRRC reinsurance on any loan is limited to a maximum of 25% the total indebtedness to the insured. MRRC assumes all of its business from MGIC and does not cede any of its business.

As of December 31, 2002, MRRC's statutory financial statements reported total admitted assets of $15,925,334, total liabilities of $2,070,188, and policyholder's surplus of $13,855,146. Operations for 2002 provided reported net income of $1,085,987.

Affiliated Agreements

1. 1986 Tax Sharing Agreement – The MGIC enterprise maintains a Tax Sharing Agreement whereby MGIC Investment Corporation and specified subsidiaries that qualify under the Internal Revenue Code join in filing a consolidated federal income tax return. Tax benefit or liability attributed to each respective legal entity under the consolidated income tax return is based on the amount of benefit or liability that would otherwise be applicable if the respective legal entity filed a separate United States Corporation Income Tax Return. For purposes of income tax sharing, each subsidiary computes its own income on a separate company basis, and each computes its own respective taxes by applying on a separate company basis the provisions of the Internal Revenue Code. The Tax Sharing Agreement is amended from time-to-time as necessary to add or delete the participation of applicable affiliated entities, and currently provides that each of the Wisconsin-domiciled MGIC insurers is a participant in the agreement.

2. 1996 Servicing Agreement – MGIC maintains a Servicing Agreement under which MGIC performs management and administrative services for the benefit of various affiliates within the MGIC holding company. Services provided by MGIC to its affiliates include provision of office space and employees; administration of underwriting, risk management and claims; performance as agent for funds collection and disbursement; maintenance of investment portfolios and execution of investment transactions; maintenance of depository accounts; maintenance of books and records including financial records; and the preparation and delivery of reports, tax returns, and documents and filings, as required. MGIC's direct costs and indirect expenses incurred in providing services to the individual affiliates are allocated to the respective affiliates. The Servicing Agreement is amended from time-to-time as necessary to add or delete the participation of applicable affiliated entities, and currently provides that each of the Wisconsin-domiciled MGIC insurers is a participant in the agreement.

3. 1985 Reinsurance Management Agreement – The Reinsurance Management Agreement was established February 28, 1985 upon the entry of WMAC into liquidation proceedings. Pursuant to the agreement, MGIC provides services to participating reinsurers as required for the management and administration of the run-off liabilities of WMAC. Services provided by MGIC under the agreement include issuance of renewals; collections from other reinsurers; servicing of customers; performance of WMAC obligations under quota share reinsurance,; provision of office space and administrative and clerical personnel and services as necessary; performance of processing, settlement, and payment of claims and the disposition of real estate in settlement of claims; preparation of reports for submission to reinsurers; performance as agent for funds collection and disbursement; maintenance of depository accounts, collection and deposit of receipts and rendering of accountings; and the preparation of required reports or filings. Effective July 1, 1987, the agreement was amended to provided that MGIC waived all compensation for periods subsequent to June 30, 1987.

4. MGIC – MIC Indemnity Agreement with respect to New York – Effective September 1, 2000, an Indemnity Agreement was established between MGIC and MIC to facilitate the withdrawal of MIC from the state of New York. The agreement pertains solely to MIC's liabilities in the state of New York for WMAC run-off mortgage guaranty insurance policies written prior to February 28, 1985, including primary insurance issued under master policies on individual mortgage loans and pool insurance issued under mortgage trust supplemental or pool policies. Pursuant to the agreement, MGIC agrees to pay any WMAC insured located in New York all of WMAC's obligations at any time in the event that WMAC has failed to pay any amount due to the insured under WMAC's outstanding policies. Each WMAC insured shall have privity with, direct right of action against, and the right to file claims directly with MGIC to pay WMAC's obligations after WMAC has failed to pay. Under the agreement, MGIC issued an endorsement as required by applicable law to advise insureds of MGIC's indemnity agreement for WMAC business, and MGIC issued an undertaking to governmental agencies

in New York for payment of taxes and other liabilities of WMAC to such agencies. Under the agreement, MGIC is entitled to recover from WMAC the amount paid by MGIC in payment of WMAC obligations as a result of this agreement. The agreement will remain in effect for so long as any of WMAC's policies remain outstanding and in force.

5. <u>MGIC – MIC Capital and Surplus Guaranty with respect to Arkansas and Connecticut</u> – During 2001, MGIC established agreements for the maintenance of MIC capital and surplus in the states of Arkansas and Connecticut as required for the licensure of MIC in those two states. The agreements provide that MGIC will make necessary contributions to MIC to maintain MIC capital and surplus of $4 million. The agreements are effective until MIC has three consecutive years of profitable operations, but in any event no later than April 30, 2006. MGIC to-date has not made capital contributions to MIC under the agreements.

6. <u>MGIC – MIC Capital and Surplus Guaranty with respect to New Jersey</u> – Effective January 23, 2003, the MGIC Board of Directors adopted a resolution affirming that, as a condition precedent to admission of MIC to conduct business in the State of New Jersey, MGIC will guaranty to maintain MIC capital and surplus sufficient to meet or exceed the statutory capital and surplus requirements of New Jersey. The guaranty is for a five-year term commencing on the date of MIC admission to New Jersey, and was filed with the New Jersey Department of Banking and Insurance on July 21, 2003 for the purpose of facilitating a waiver of the seasoning requirements for admission of an insurance company.

7. <u>MGIC – MIC Unconditional Guaranty Agreement with respect to North Carolina</u> – Effective January 23, 2003, the MGIC Board of Directors adopted a resolution affirming that, pursuant to statutory requirements for admission of MIC to conduct business in the State of North Carolina, MGIC will guaranty to maintain MIC capital and surplus at the greater of the financial requirements established in North Carolina General Statutes or the risk based capital requirements imposed by North Carolina General Statutes. The guaranty is for a three-year term commencing on the earlier of the date of MIC admission to North Carolina or until MIC has three consecutive years of profitable operations. An Unconditional Guaranty Agreement corresponding to the board resolution was executed on July 18, 2003 and was filed with the North Carolina Department of Insurance on July 22, 2003 for the purpose of facilitating a waiver to the seasoning requirements for admission of an insurance company.

8. <u>MGIC – MCAC Net Worth Maintenance Agreement</u> – Established effective February 11, 2000, the Net Worth Maintenance Agreement provides that, for the purpose of providing funds with which MCAC will be able to pay its insurance claims, MGIC agrees to contribute capital to MCAC to maintain minimum net worth of MCAC equal to eight and one-half percent of the risk in force of the aggregate outstanding MCAC insurance policies as of the end of each calendar quarter. MGIC's contributions toward the maintenance of MCAC net worth are subject to the maximum required contribution limitation of $40 million for all contributions made by MGIC from December 1, 1999 until the termination of the agreement. Maximum contributions will be determined from time-to-time and all other additions by MGIC to the net worth of MCAC will reduce the remaining obligation of MGIC to make contributions up to the maximum contribution. The agreement is in effect for so long as there are any MCAC insurance policies in force, and in any event will terminate on December 31, 2010 if not terminated earlier. MGIC to-date has made capital contributions of $20 million under the agreement. There were no capital contributions under the agreement in 2002.

9. <u>MGIC – MCAC Capital Maintenance Agreements with respect to Arizona and Connecticut</u> – MGIC has established agreements for the maintenance of MCAC capital as required for the licensure of MCAC in those two states. The agreement with regard to Arizona provides that MGIC will make any capital contribution to MCAC necessary to maintain MCAC capital and surplus of $4 million, and is effective through September 30, 2004. The agreement with respect to Connecticut provides that MGIC will make any capital contribution to MCAC necessary to maintain MCAC capital and surplus of $2 million until MCAC has three

consecutive years of profitable operations, but in any event no later than April 1, 2006. MGIC to-date has not made capital contributions to MCAC under these agreements.

V. REINSURANCE

Mortgage Guaranty Insurance Corporation's active reinsurance program encompasses two components of business activity, "New Book-Affiliated" reinsurance and "Captive" reinsurance. MGIC also has two inactive reinsurance business components, "Old Book" and "Foreign" reinsurance, both of which have been in run-off for several years and are not material to the ongoing business activity of the company. The previous examination also reported on the company's former "New Book-Domestic" reinsurance agreements with various unaffiliated domestic reinsurers. MGIC commuted and terminated each of the former New Book-Domestic treaties during the period under examination, and the treaties are no longer applicable to the company's reinsurance program. Each of the company's current reinsurance treaties contains proper insolvency clauses.

New Book-Affiliated Reinsurance

MGIC cedes excess loss and quota share residential mortgage guaranty risks to affiliated mortgage guaranty insurers under numerous affiliated reinsurance contracts. The reinsurance cessions by MGIC are maintained to facilitate MGIC compliance with statutory requirements that a mortgage guaranty insurer must limit its retention under a single policy of insurance to not more than 25% of debt of the mortgage borrower.

MGIC has three excess loss reinsurance agreements with MGIC Reinsurance Corporation of Wisconsin that provide for MRCW assumption of MGIC deep coverage primary and pool insurance. Under one reinsurance agreement that applies to primary insurance, MGIC cedes to MRCW primary mortgage guaranty policy risks on losses up to 25% in excess of 25% of the indebtedness of the mortgage borrower, including LAE. The remaining excess loss agreements cede to MRCW primary and pool mortgage guaranty risks in excess of 25% of the indebtedness of the mortgage borrower, including LAE. MGIC's treaties with MRCW cover business written in all U.S. jurisdictions except California, Kansas, Maryland, New York, Texas, and Illinois.

The above named states do not allow a direct insurer to recognize credit for reinsurance ceded to a subsidiary insurer. For primary and pool mortgage guaranty insurance risks written in these six states, MGIC maintains reinsurance treaties with three non-subsidiary affiliates. The treaties provide for cession to each respective reinsurer of one-third of the liability for losses in excess of loss liability of 25% of the indebtedness to the insured which is retained by MGIC, for business written in the states of California, Kansas, Maryland, New York, Texas, and Illinois. The three affiliated reinsurers under these treaties are MGIC Reinsurance Corporation, MGIC Mortgage Reinsurance Corporation, and MGIC Residential Reinsurance Corporation.

Four MGIC contracts with MGIC Reinsurance Corporation provide reinsurance coverages on primary mortgage guaranty insurance policies for losses in excess of 25% of the mortgage borrower's mortgage indebtedness on any single risk. Three of the contracts pertain to business written in all U.S jurisdictions except for six states, and are in run-off. One contract pertains to risks written on a direct basis by MGIC in six states that do not allow a ceding insurer to recognize credit for reinsurance ceded to a subsidiary affiliate reinsurer, as described in the preceding paragraph. A fifth MGIC agreement with MGIC Re provides for cession of business on a quota share basis for policies with coverages in excess of 25% that are subject to a "risk-sharing" agreement with state housing finance agencies or captive reinsurance.

MGIC has an agreement with MGIC Mortgage Insurance Corporation that provides for 100% assumption by MMIC on business written by MGIC that requires a AAA rated insurer. MGIC's AAA rated policies insure primary individual residential mortgage loan risks, and the company has not issued any AAA pool business. During the past several years there has been negligible market demand for AAA rated mortgage guaranty insurance within the mortgage lending industry. MGIC has not written new AAA rated policies and MMIC has not assumed any new business from MGIC since the late 1990's. MGIC's current ceded book of AAA rated business is comprised of reinsurance on renewals of existing policies that are effectively in run-off.

Captive Reinsurance

MGIC's captive reinsurance program consists of MGIC business cessions to reinsurers that are affiliated with mortgage lending institutions. Under a captive reinsurance arrangement, a portion of the mortgage guaranty insurance risk written by a primary mortgage insurer that pertains to loans originated or serviced by a particular mortgage lender or financial institution is transferred to a reinsurance company (a "captive reinsurer") that is owned or controlled by the loan originator or servicing institution. The lender establishes a captive reinsurer and undertakes reinsurance assumption of insurance risk through its captive so as to participate in the profits that can potentially be realized from providing mortgage guaranty insurance on mortgage loans that are originated or serviced by the lender.

The use of captive reinsurance in the mortgage guaranty insurance industry began in the mid-1990's and has expanded significantly during the past five years. MGIC's first captive reinsurance agreement was executed in December of 1996. The following schedule summarizes the growth of the company's captive reinsurance program through year-end 2002:

MGIC Captive Reinsurance Ceded
For the Five-year Period Ending December 31, 2002

	1998	**1999**	**2000**	**2001**	**2002**
Number of captive treaties	15	39	50	57	71
Annual premiums ceded (000's)	$5,701	$17,370	$43,234	$61,006	$83,688

The typical captive reinsurance arrangement in which MGIC participates is between MGIC and a single lending institution or a group of lending institutions. The MGIC business subject to a captive reinsurance cession consists solely of business that is derived from MGIC's guaranty of mortgages originated or serviced by the respective lending institution. There is no pooling of risk among captive reinsurance agreements. Risk is transferred from MGIC to the captive reinsurer on an annual aggregate excess of loss basis or on a quota share basis. Under excess risk agreements, the first layer of exposure is retained by MGIC, an excess layer of risk is ceded to the captive, and any remaining exposure is retained by MGIC. Under the quota share agreements, a proportional share of each loss is ceded to the captive. Contracts vary on whether the premium is transferred on a written or earned basis. Calendar year attachment points are determined based on the business produced. Reinsurance coverage has a term of 120 months. Provisions contained in the company's captive reinsurance agreements are evolving as the company gains more experience with the product and the requirements of the marketplace.

The captive reinsurers are generally not considered authorized reinsurers, and they often use collateral funding arrangements so that the reinsurance transaction may qualify for the recognition of ceded reinsurance credits by the ceding company. Each of the MGIC captive reinsurance agreements provide for a trust or letter of credit to be established by the reinsurer. The entire ceded premium is paid into the trust, and the reinsurer is required to fund the trust in an amount equal to 10% of the coverage in force under the reinsurance, with the funding requirement remaining applicable even if the assumed risk does not remain in-force. Amounts by which policyholder reserves (the market value of the trust less loss, LAE, and unearned premium reserves) are in excess of 102% of the greater of the contingency reserve, or 20% of the remaining ceded coverage, or in the case of run-off, 100% of the remaining coverage, may be disbursed to the reinsurer.

Captive reinsurance arrangements between mortgage guaranty insurers and mortgage loan originators have become a standard business practice in the mortgage lending industry. Captive reinsurance activity is generally expected to increase in the intermediate term, as mortgage originators elect to participate in insurance activity that relates to the lenders' banking business. As of April 1, 2003, MGIC announced that it will not participate in new excess of loss risk sharing arrangements that provide for cession of net premiums in excess of 25% of written premiums on terms that were generally present in the market at that date.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2002, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System ("IRIS") ratio results for the period under examination, and the minimum policyholder position calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Mortgage Guaranty Insurance Corporation
Assets
As of December 31, 2002

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$4,597,526,006		$4,597,526,006
Stocks:			
Preferred stocks	25,112,150		25,112,150
Common stocks	513,772,730		513,772,730
Real estate:			
Occupied by the company	22,933,397		22,933,397
Properties held for sale	31,154,552		31,154,552
Cash	68,578,410		68,578,410
Short-term investments	27,664,579		27,664,579
Other invested assets	248,892,140	$ 604,151	248,287,989
Receivable for securities			
Agents' balances or uncollected premiums:			
Premiums and agents' balances in course of collection	97,578,287		97,578,287
Reinsurance recoverable on loss and loss adjustment expense payments	7,160,815		7,160,815
Federal and foreign income tax recoverable and interest thereon	45,931,737		45,931,737
Electronic data processing equipment and software	3,432,578		3,432,578
Interest, dividends, and real estate income due and accrued	46,464,465		46,464,465
Receivable from parent, subsidiaries, and affiliates	9,178,442		9,178,442
Equities and deposits in pools and associations			
Other assets nonadmitted:			
Furniture, equipment, and supplies	13,977,646	13,977,646	
Leasehold improvements	723,454	723,454	
Loans on personal security, endorsed or not	20,622	20,622	
Write-ins for nonadmitted assets:			
Prepaid expense	37,998,632	37,998,632	
Deferred loss	168,077	168,077	
Write-ins for other than invested assets			
Notes Receivable	2,817,201		2,817,201
Cash surrender value of split dollar life plan	1,268,206		1,268,206
Total Assets	$5,802,354,126	$53,492,582	$5,748,861,544

Mortgage Guaranty Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2002

Losses		$3,902,721,222
Loss adjustment expenses		33,832,844
Commissions payable, contingent commissions, and other similar charges		(107,412)
Other expenses (excluding taxes, licenses, and fees)		45,165,247
Taxes, licenses, and fees (excluding federal and foreign income taxes)		8,940,505
Federal and foreign income taxes		10,728,523
Unearned premiums		92,372,127
Ceded reinsurance premiums payable (net of ceding commissions)		53,739,541
Amounts withheld or retained by company for account of others		5,625,241
Remittances and items not allocated		21,037,760
Payable for securities		2,603,020
Write-ins for liabilities:		
Litigation payable		22,619,241
Minimum pension liability		1,541,657
Payable under management agreement		34,637
Total Liabilities		4,200,854,153
Common capital stock	$ 5,000,000	
Gross paid in and contributed surplus	243,160,174	
Unassigned funds (surplus)	1,487,429,158	
Less treasury stock, at cost:		
Common	187,581,941	
Surplus as Regards Policyholders		1,548,007,391
Total Liabilities and Surplus		$5,748,861,544

Mortgage Guaranty Insurance Corporation
Summary of Operations
For the Year 2002

Underwriting Income		
Premiums earned		$1,043,871,178
Deductions:		
Losses incurred	$289,300,122	
Loss expenses incurred	24,300,449	
Other underwriting expenses incurred	151,617,790	
Write-ins for underwriting deductions:		
Statutory contingency reserve contribution	521,935,589	
120 month release of statutory contingency reserve	(107,085,744)	
Total underwriting deductions		880,068,206
Net underwriting gain		163,802,972
Investment Income		
Net investment income earned	161,554,940	
Net realized capital gains	29,167,679	
Net investment gain		190,722,619
Other Income		
Net loss from agents' or premium balances charged off	(2,153,195)	
Write-ins for miscellaneous income:		
Minimum pension liability adjustment	(1,541,657)	
Total other income		(3,694,852)
Net income before federal and foreign income taxes		350,830,739
Federal and foreign income taxes incurred		94,355,000
Net Income		$ 256,475,739

Mortgage Guaranty Insurance Corporation
Cash Flow
For the Year 2002

Premiums collected net of reinsurance			$1,037,209,336
Deduct:			
Loss and loss adjustment expenses paid (net of salvage or subrogation)			199,498,516
Underwriting expenses paid			146,050,127
Cash from underwriting			$ 691,660,693
Net investment income			168,532,027
Other income (expenses):			
Agents' balances charged off		$ (2,153,195)	
Net amount withheld or retained for account of others		(5,442,659)	
Write-ins for miscellaneous items:			
Merger of subsidiary		7,301,665	
Total other income			(294,189)
Deduct:			
Federal income taxes paid			90,601,590
Net cash from operations			$769,296,941
Proceeds from investments sold, matured, or repaid:			
Bonds	$1,740,789,905		
Stocks	227,397		
Real estate	73,500,311		
Other invested assets	22,140,288		
Net gains or (losses) on cash and short-term investments	(3,206)		
Total investment proceeds		1,836,654,695	
Cost of investments acquired (long-term only):			
Bonds	2,322,819,316		
Stocks	5,671		
Real estate	72,861,590		
Other invested assets	35,377,563		
Miscellaneous applications	35,226,390		
Total investments acquired		2,466,290,530	
Net cash from investments			(629,635,835)
Cash provided from financing and miscellaneous sources:			
Surplus notes, capital and surplus paid in	7,160,174		
Other cash provided	1,339,561		
Total		8,499,735	
Cash applied for financing and miscellaneous uses:			
Dividends to stockholders paid	164,652,965		
Net transfers to affiliates	267,587		
Other applications	21,116,534		
Total		186,037,086	
Net cash from financing and miscellaneous sources			(177,537,351)
Net change in cash and short-term investments			(37,876,245)
Reconciliation			
Cash and short-term investments, December 31, 2001			134,119,234
Cash and short-term investments, December 31, 2002			$ 96,242,989

Mortgage Guaranty Insurance Corporation
Policyholder Position Calculation
December 31, 2002

Surplus as regards policyholders		$1,548,007,391	
Deferred risk premium maintained in unearned premium reserve		503,993	
Contingency reserve		3,429,838,289	
Subsidiary's minimum policyholder position		329,517,258	
Total policyholders position			$4,648,832,415
Net minimum policyholders' position			
Individual loans:			
Loan-to-value more than 75%	$1,681,009,771		
Loan-to-value 50 - 75%	33,876,911		
Loan-to-value less than 50%	858		
Total individual loans		1,714,887,539	
Group of Loans:			
Equity 20 - 50%, or equity plus prior insurance or deductible 25 – 55%	125,359,019		
Equity more than 50%, or equity plus prior insurance or a deductible less than 25%	3,031,578		
Total group loans		128,390,597	
Minimum policyholder position			1,843,278,136
Excess of total policyholders' position over minimum policyholders' position			$2,805,554,279

Mortgage Guaranty Insurance Corporation
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2002

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1998	**1999**	**2000**	**2001**	**2002**
Surplus, beginning of year	$332,870,663	$493,548,210	$584,082,850	$919,901,200	$1,373,892,366
Net income	162,794,288	266,162,359	290,574,265	363,253,355	256,475,739
Net unrealized capital gains or (losses)	27,176,953	31,894,792	54,654,843	88,681,434	65,224,796
Change in net deferred income tax				(21,588,000)	18,629,580
Change in non-admitted assets	2,011,110	(2,976,813)	1,680,138	(19,657,195)	(13,959,307)
Cumulative effect of changes in accounting principles				56,052,302	
Capital changes:					
Paid in		(35,000,000)			
Surplus adjustments:					
Paid in					7,160,174
Dividends to stockholders	(26,393,700)	(169,649,829)	(11,090,896)	(12,750,730)	(164,652,965)
Write-ins for gains and (losses) in surplus:					
Merger of subsidiary					5,237,008
Extraordinary amounts of taxes for prior years	(2,911,104)	104,131			
Surplus, end of year	$493,548,210	$584,082,850	$919,901,200	$1,373,892,366	$1,548,007,391

Mortgage Guaranty Insurance Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2002

The company's NAIC Insurance Regulatory Information System ("IRIS") results for the years under examination are summarized in the following table. The unusual IRIS results during the period are denoted with asterisks, and are discussed following the table of IRIS data.

	Ratio	1998	1999	2000	2001	2002
#1	Gross Premium to Surplus	154%	138%	102%	78%	82%
#2	Net Premium to Surplus	138%	121%	88%	67%	67%
#3	Change in Net Writings	6%	4%	15%	14%	12%
#4	Surplus Aid to Surplus	0%	0%	0%	0%	0%
#5	Two-Year Overall Operating Ratio	75%	62%	54%	55%	63%
#6	Investment Yield	4%	4%	4%	4%	3% *
#7	Change in Surplus	46%	18%	56% *	49%	12%
#8	Liabilities to Liquid Assets	93%	94%	88%	83%	88%
#9	Agents' Balances to Surplus	0%	0%	4%	6%	6%
#10	One-Year Reserve Devel. to Surplus	(43)%	(42)%	(27)%	(17)%	(4)%
#11	Two-Year Reserve Devel. to Surplus	(64)%	(69)%	(58)%	(43)%	(22)%
#12	Estimated Current Reserve Def. To Surplus	(93)%	(92)%	(39)%	(13)%	(18)%

IRIS ratio number 6 evaluates the yield on investments that an insurer recognizes as investment income and realized gains compared to annual average cash and total invested assets. The company's unusual result in 2002 for ratio number 6 was due to the company having large investments classified as other invested assets for which no investment income is recorded and for which annual additions to the company's investment are recorded as unrealized gains. As of year-end 2002 the company's other invested asset investments equaled $248.9 million, and amounted to 4.5% of total invested assets.

IRIS ratio number 7 evaluates an insurer's year-to-year change in policyholder surplus. The company paid dividends of $170 million in 1999, and retained a relatively small proportion of the company's annual net income as policyholder surplus in that year. In 2000, the company paid a dividend of $11 million and retained a larger proportion of its annual net income as policyholder surplus, giving rise to an increase in surplus of 55%.

Growth of Mortgage Guaranty Insurance Corporation

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1998	$3,135,526,187	$2,641,977,977	$493,548,210	$162,794,288
1999	3,468,487,313	2,884,404,463	584,082,850	266,162,359
2000	4,135,756,728	3,215,855,528	919,901,200	290,574,265
2001	5,064,778,394	3,690,886,028	1,373,892,366	363,253,355
2002	5,748,861,544	4,200,854,153	1,548,007,391	256,475,739

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1998	$759,366,990	$682,675,973	$710,845,582	23.3%	63.3%	86.6%
1999	807,532,343	708,306,349	728,096,208	9.1%	62.0%	71.1%
2000	937,727,648	813,184,964	807,718,271	10.8%	61.0%	71.8%
2001	1,070,734,792	923,885,118	939,933,762	15.7%	57.8%	73.5%
2002	1,276,792,136	1,038,504,890	1,043,871,178	30.0%	54.9%	84.9%

Annual net contingency reserve contributions, required due to annual growth in premiums written, are included in the expense ratio calculations reported above, and contributed to the high expense ratios experienced by the company in each of the years under examination.

The strong U.S. housing market and generally favorable economic environment existent during the years under examination enabled the company to expand its business activity and maintain an overall high level of profitability. During the years under review, MGIC's annual net premium earned increased by 55%, to $1 billion in 2002, and annual net income increased by 130%, from $111.7 million at year-end 1997, to $256.5 million at year-end 2002. During the examination period, total net admitted assets increased by 115% to $5.7 billion, total liabilities increased by 79% to $4.2 billion, and policyholder surplus increased by 365% to $1.5 billion.

Reconciliation of Surplus per Examination

The examination did not make any reclassification of or adjustment to year-end balances reported by the company. The company's surplus as regards policyholders as of December 31, 2002 was $1,548,007,391.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were six specific comments and recommendations in the previous examination report. Comments and recommendations contained in the previous examination report and actions taken by the company are as follows:

1. Conflict of Interest—It is recommended that the company maintain files of individual conflict of interest disclosure filings from examination to examination, so that the disclosures may be available for independent review.

   Action—Compliance

2. Management and Control—It is again recommended that the company's board of directors review executive decisions made on behalf of the company by the parent corporation, and that the board exercise its responsibility to manage the company by taking action on those decisions, by resolution of the company's board of directors.

   Action—Compliance

3. Custody of Invested Assets—It is recommended that the company's custodial agreements expressly provide for the fiduciary obligations of the custodian, to provide that the custodian shall be obligated to indemnify the company for any loss of property of the company that is held in the custodian's custody, for loss arising from the negligence or dishonesty of the custodian's officers or employees, or for loss due to burglary, holdup, theft, or mysterious disappearance, including loss by damage or destruction. It is further recommended that the custodial agreements provide that, in the event of a loss of securities for which the custodian is obligated to indemnify the company, the securities or the value of the securities at the time of the loss occurrence shall be promptly replaced, and that the value of any loss of rights or privileges resulting from said loss shall be promptly replaced.

   Action—Compliance

4. Cash on Deposit—It is recommended that the company discontinue the current practice of reporting a liability representing issued and outstanding checks, and that the company report its cash assets in conformity to with the NAIC Annual Statement instructions—Property and Casualty.

   Action—Compliance

5. Loss Reserves—It is recommended that the company include only the liability for losses arising from insurance underwriting risk in the loss reserves reported in the company's statutory annual statement, in conformity with NAIC Annual Statement Instructions—Property and Casualty.

   Action—Compliance

6. Option Expense—It is recommended that the company classify all of its aggregate potential liability for vested stock option compensation in appropriately reported accrued expense liability in its statutory financial statements.

   Action—Compliance

Summary of Current Examination Results

The current examination did not result in any findings of material exception, and did not result in any recommendations requiring company action or compliance.

VII. CONCLUSION

Mortgage Guaranty Insurance Company was initially organized February 20, 1979 under the name Liberty Mortgage Insurance Corporation, and was purchased by MGIC Investment Corporation in November of 1984. The name of the company was changed to Mortgage Guaranty Insurance Corporation on March 1, 1985, when the company began writing new business. MGIC is the lead operating company in the MGIC enterprise, and performs all of the business operations of its affiliated insurers pursuant to an intercompany services agreement. The company is a direct writer of primary and pool residential mortgage guaranty insurance, and as of year-end 2002 had a 25% market share of the national mortgage guaranty insurance market.

The company had three significant holding company changes during the period under examination. From 1985 through May 1999, Mortgage Guaranty Reinsurance Corporation held all of MGIC's Class B common capital stock and MGIC Investment held all of the MGIC Class A common capital stock. Effective May 25, 1999, MGRC was dissolved and all 35,000 issued and outstanding shares of MGIC Class B common stock held by MGIC Investment Corporation were redeemed at a price of $1,000 per share. The remaining assets and liabilities of MGRC, including 100% of the MGIC Class A common capital stock, transferred to MGIC Investment Corporation. MGIC's capital stock presently is comprised solely of one class of issued and outstanding common stock wholly owned by MGIC Investment.

MGIC Surety Corporation, a former subsidiary of MGIC, was merged with and into MGIC effective November 30, 2002. Upon the merger of Surety, the assets and liabilities of MGIC Surety Corporation, including 100% of the issued and outstanding capital stock of MAC, transferred to MGIC.

Effective December 31, 1998, MGIC purchased ownership and control of MGIC Indemnity Corporation, formerly known as Wisconsin Mortgage Assurance Corporation, the predecessor of the present-day MGIC. MIC's entire portfolio of mortgage guaranty risks has been in run-off since February 1985.

MGIC experienced favorable financial performance and corporate growth during the period under examination. During the five-year period, annual net premiums earned increased by 55%, annual net income increased by 130%, total admitted assets increased by 115%, and total liabilities increased by 79%. From year-end 1997 through year-end 2002, policyholder surplus increased by 365% to $1.5 billion.

The examination determined that the company is in compliance with the six recommendations that resulted from the previous examination of the company. The current examination did not result in any findings of material exception, and did not result in any reclassification of account balances or adjustment to surplus. As of December 31, 2002, the company reported net admitted assets of $5,748,861,544, total liabilities of $4,200,854,153, and total surplus as regards policyholders of $1,548,007,391.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination did not result in any findings of material exception, and did not result in any recommendations requiring company action or compliance.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Rebecca Easland	Insurance Financial Examiner
Ryan Hanson	Insurance Financial Examiner
Tom M. Janke	Insurance Financial Examiner
Russell Lamb	Insurance Financial Examiner
Randy Milquet	Insurance Financial Examiner—Advanced

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge